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UNICEF recovery policy

Report of the Advisory Committee on Administrative and Budgetary Questions

* E/ICEF/1998/12.

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I. INTRODUCTION

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Children's Fund (UNICEF) on the recovery policy (E/ICEF/1998/AB/L.6). The report is submitted in response to the Executive Board decision 1994/R.3/5 of 5 October 1994 (E/ICEF/1994/13/Rev.1), in which the Board requested the Executive Director to review the adequacy of the UNICEF recovery policy and to submit the review, with recommendations, for the consideration of the Board.

2. Annex I of the report of the Executive Director summarizes the development of the current UNICEF policy on recovery of support costs from supplementary-funded programmes for the period from 1986 to January 1998. Information on the development of the UNICEF recovery policy since its inception in 1968, when UNICEF was authorized to accept supplementary funds contributions from Governments, is contained in the annex to document E/ICEF/1994/AB/L.2.

3. In decision 1994/R.3/5, the Executive Board decided that, beginning with the 1996-1997 administrative and programme support budget, the policy of charging 6 per cent to all supplementary-funded projects should be discontinued and replaced by an interim policy whereby all headquarters posts previously charged to recovery funds would be charged to the administrative and programme support budget without any change to contractual status. In accordance with this interim policy, the Board decided that for all supplementary-funded programmes signed after 31 December 1995, 3 per cent of the total supplementary-funded programme would be recovered and applied to the general operating cost of field offices. Moreover, for the donors previously exempted from payment of the recovery charge, or not specifically identified in previous Executive Board decisions on recovery policy, the Board decided that the 3 per cent recovery charge also would apply and that the recovery policy would be an interim policy to be reviewed further by the Board in 1999. In this connection, as indicated in paragraph 34 of the UNICEF biennial support budget for 1998-1999 (E/ICEF/1998/AB/L.1 and Corr.1), the Committee recalls that the Executive Director recommended that the Board review the issue at its second regular session in 1998 so that the decision of the Board on the recovery policy would be incorporated into the biennial budget for 2000-2001.

4. In its decision 1998/2 of 30 January 1998 (E/ICEF/1998/6 (Part I)), the Board approved the UNICEF biennial support budget for 1998-1999. The Advisory Committee recalls that the gross biennial support budget is formulated to support programme activities funded from both regular and other resources (E/ICEF/1998/AB/L.1, paras. 13-17). As indicated in paragraph 15 of document E/ICEF/1998/AB/L.2, other resources for the biennial support budget for the biennium 1998-1999 include recovery income from supplementary-funded projects, estimated at $23.4 million based on 3 per cent recovery charges to supplementary funds estimated at $780 million. In accordance with Executive Board decision 1994/R.3/5, this amount would be applied to cover the share of general operating costs of supplementary-funded projects in field offices. In this connection, the Committee recalls that it had indicated that if income estimates to the support budget did not materialize as projected, there would be a need to effect additional economy measures. Moreover, the Committee requested that in the next budget submission, the adequacy of the 3 per cent recovery charge to supplementary funds be addressed (E/ICEF/1998/AB/L.2, para. 15).

5. The Advisory Committee notes from paragraph 14 and annex III of the report that the proportion of income for supplementary-funded projects to total income increased from 36 per cent in 1982 to 47 per cent in 1995 and then declined slightly to about 41 per cent of total income in the biennium 1996-1997. For 1998-1999, supplementary-funding income, as shown in table 1 of the report, is projected to be $780 million, or 40 per cent of the total projected income of $1,903 million (see also table 3 of E/ICEF/1998/AB/L.1). The Committee has commented in the past on the relatively large proportion of supplementary-funded resources to total income. The Committee emphasized that the recovery of overhead charges and the need to avoid subsidizing supplementary-funded projects by using general resources to cover their administrative costs are issues of concern to the Committee and to the UNICEF governing body (E/ICEF/1994/AB/L.16, paras. 12 and 14).

II. RECOVERY OF SUPPORT COSTS

6. Chapter IV of the report discusses the methodology used to estimate cost recovery at UNICEF. Using the cost estimates for the support budget for the biennium 1998-1999, the costs of supporting supplementary-funded projets is presented for two separate areas: country and regional offices in the field; and headquarters. As indicated in paragraphs 36-38 and table 5 of the report, total support costs for supplementary-funded projects for field offices and headquarters amount to $71.8 million. It is proposed to cover them by increasing the recovery charge to supplementary-funded projects from 3 to 5 per cent to obtain credits for the support budget of field offices of about $40 million. The remaining cost of about $32 million would be covered by potential interest income that would be derived from cash balances of supplementary-funded projects.

7. Paragraphs 17 and 18 and table 2 of the report show the amounts recovered from supplementary funds for the period from 1992-1993 to 1996-1997 and projections for 1998-1999 (i.e., $19 million, $31 million and $27 million for the three prior bienniums and $23 million projected for 1998-1999). Interest income earned on supplementary funding cash balances amounts to $15 million, $22 million and $32 million for the three prior bienniums and is projected to $32 million for 1998-1999.

8. In the view of the Advisory Committee, the explanations given in paragraphs 17 and 18 in respect of the treatment of interest income from supplementary funding balances could be misleading. For example, it is indicated that "to present an accurate picture of the recovery, the interest income from supplementary funding balances is added to the actual and estimated recovery to total $34 million, $53 million, $58 million and $55 million respectively for the four biennia." According to the Executive Director, these figures are derived from the addition of the amounts recovered from supplementary funds and the interest earned on supplementary funding cash balances, which are distributed proportionally to the support budget (i.e., programme support plus management and administration). However, as indicated in annex I and the recommendation in paragraph 40 (b), interest income received from the unexpended supplementary funding cash balances would continue to be credited to general resources income and not to the support budget. The Advisory Committee questions a procedure whereby interest income that is credited to general resources would, in fact, be used to offset support costs as it does not provide a clear accounting trail.

9. The Committee points out that, in light of potential fluctuations in the pattern of receipts and disbursements of supplementary funds, as well as fluctuations in exchange rates and interest rates, it would not be prudent, as a matter of policy, to rely on interest income accruing on cash balances of supplementary funds to cover shortfalls in support costs recovery.

Cost recovery in country and regional offices

10. Paragraphs 20-26 and table 3 of the report present the basic assumptions and the estimates of three categories of support costs for supplementary-funded projects in country and regional offices (i.e., substantive support, operational support and common general operating support), amounting to $47 million, or 17.4 per cent of the total support budget of $270 million for country and regional offices in 1998-1999.

11. With regard to the substantive support costs for supplementary-funded projects in country and regional offices, taking into account the definition of substantive support indicated in paragraph 20 (a) of the report, the Advisory Committee believes that the assumption made in paragraph 22 of the report that in the field offices most of the costs in substantive support are not affected by the volume of supplementary funding is questionable. The Committee recalls that, as shown in document E/ICEF/1998/AB/L.4, for country and regional offices in the biennium 1998-1999, the proportion of supplementary-funded programmes to the total programme is larger than the proportion of the regular resources to the total programme. Thus, in the biennium 1998-1999, for regional and country offices, the amount of $780,407,500, or 56.8 per cent of the total programme budget is estimated to be funded from other resources, which are primarily supplementary-funded resources, and the amount of $594,621,500, or 43.2 per cent to be funded from regular resources. In the Committee's opinion, the assumption made in paragraph 22 of the report is not entirely valid since all programme activities funded from supplementary resources require substantive support. Furthermore, because the substantive support costs are significant, as most of the staff in this category are international Professionals, if no allocation is made from this cost category, recovery from supplementary funding is substantially underestimated.

12. With regard to operational support costs for supplementary-funded projects in country and regional offices, the Advisory Committee notes from paragraphs 23-25, table 3 and annex III of the report that these costs, as defined in paragraph 20 (b) of the report, would amount to $22 million, or about 30 per cent of the budget of the field offices' operations sections for 1998-1999 (also shown as 29.05 per cent in annex III of the report). The results presented in annex III to the report for the office activity-based costs analysis in a country case study depend largely on the assumptions made with respect to the percentage distribution between general resources and supplementary funding resources (i.e., in annex III, general resources for programmes are assumed to be 52.5 per cent and 47.5 per cent for supplementary-funded programmes). The Advisory Committee believes that operational support costs for supplementary-funded projects in country and regional offices would have been higher if the resource ratios reported to the Executive Board in document E/ICEF/1998/AB/L.4 for general resources and supplementary-funded programmes had been utilized in the exercise (see paragraph 11 above).

13. The common general operating support costs for supplementary-funded programmes in country and regional offices, as defined in paragraph 20 (c) of the report, is estimated at $25 million, or 40 per cent of the total common general operation costs for 1998-1999 of the field offices (E/ICEF/1998/AB/L.6, para. 25 and table 3). The Advisory Committee notes that the share of common general operating costs for supplementary funding is also largely dependent on the assumption made with respect to the percentage distribution

between general resources and supplementary-funded resources, which, as indicated in paragraphs 7 and 8 above, is not consistent with the information provided in document E/ICEF/1998/AB/L.4, and could be higher than that shown in the report.

Cost recovery for headquarters

14. For headquarters, paragraphs 27-35 and table 4 discuss the basic assumptions and show that support cost estimates for supplementary-funded projects amount to $24.8 million for 1998-1999, or 29.9 per cent of the total support budget of $83.1 million for five headquarters units (i.e., Supply Division, Office of Emergency Programmes, Division of Financial and Administrative Management (DFAM), Division of Human Resources and the Programme Funding Office). Annex IV identifies the data used to measure the support cost percentages of the five headquarters units.

15. The Advisory Committee notes from paragraph 29 that the Programme Division and the development of the Programme Manager System are activities not included in the cost recovery exercise, as these activities are considered policy development and programme support activities that would exist regardless of supplementary-funded programmes.

16. With regard to Programme Division, taking into account the information provided in chapter II of the report, the Advisory Committee is not convinced that the volume of supplementary-funded programme does not have any bearing on the cost of the activities of Programme Division. The Committee believes that a better explanation should have been provided in this respect in paragraph 29 of the report.

17. The Advisory Committee notes that the rationale for selecting the workload indicators, identified as cost drivers for headquarters units in annex IV of the report, is not explained in the document. It is not clear what methodology was used to select the indicators and how the cost allocation percentage was determined. For DFAM, the Committee notes that the proportion of 40 per cent of supplementary-funded programmes to total resources was used as a workload indicator, presumably on the basis of the income projections for 1998-1999 indicated in paragraph 5 above.

Conclusions and recommendations

18. The Advisory Committee recalls that, as indicated in paragraphs 12-14 of document E/ICEF/1994/AB/L.2, United Nations organs, programmes and agencies, differing widely in their mandates and nature of operations, have a variety of mechanisms and rates for the recovery of administrative and programme support costs. Thus, for example, for the United Nations Development Programme (UNDP), when it receives earmarked funds for specific projects, all identifiable incremental overhead administrative costs at both field and headquarters levels are built into individual project budgets, and when it uses other United Nations bodies as executing agencies, it is authorized to pay agency support costs ranging from a low of 5 per cent to more than 18 per cent. For management services contracts, the Committee noted that fees ranging from 3 to 11 per cent are charged by UNDP in accordance with a scale based on the nature and cost of services.

19. With respect to the recommendations contained in the draft decision in paragraphs 40 (c) of the report, the Advisory Committee is not convinced that a case has been made in support of the proposed methodology for the calculation of recovery of support costs. Subject to what the Executive Board may decide at its second regular session in 1998, the Advisory Committee recommends that a full analysis of the recovery charges be included in the support budget for the biennium 2000-2001.

20. In paragraph 40 (e) of the report, the Executive Director recommends that the total estimated support costs of $72 million to be incurred in the 1999 support budget in country and regional offices ($47 million) and at headquarters ($25 million) be covered by applying a 5 per cent recovery from supplementary funding ($40 million) plus projected interest income ($32 million) (see also paragraph 36 and table 5 of the report). In this regard, taking into account its view, as indicated in paragraph 9 above, the Committee believes that projected estimates of interest income are not reliable enough to be applied in the manner proposed by the Executive Director. Under the circumstances, the Advisory Committee recommends that a recovery rate be calculated which would be sufficient to cover the support costs to be incurred in the 1999 support budget. This rate would be applied, as indicated in paragraph 40 (f) of the report, to all new agreements to be signed after Board approval. The interest earned on the supplementary funding cash balances would continue to be credited to general resources (see paragraph 8 above).